Analysis: Transaero bankruptcy fear for creditors

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Alongside other airlines, Transaero had to lobby the Russian government for state aid last year when its revenues dropped because of a weak ruble and low passenger demand. And like many Russian carriers, Transaero has continued to struggle this year.

The future of Russia's second-largest carrier seemed a little brighter in September, when flag carrier Aeroflot announced it had offered to buy 75% of the airline's shares, in return for a token price of one ruble. However, in October, Aeroflot stated that Transaero shareholders had not responded to its offer within the time limit, and that it had decided not to extend the purchase offer.

As creditors threaten to file bankruptcy petitions, the carrier's debts continue to grow. As of December 2014, the debt-laden airline had balance sheet debt and outstanding finance leases totalling almost $1.8 billion. However, the carrier has struggled to make lease payments throughout the year, and that figure is now substantially higher.

Leasing sources have confirmed that Transaero is up to 12 months behind on some lease payments.

How are lessors affected?

Airfinance Journal understands that some of Transaero's lessors are considering bankruptcy claims, as well as the repossession of aircraft in response to non-payment by the airline.

Transaero creditors include VTB Leasing, Sberbank, VEB Leasing, Ilyushin Finance Company, AerCap, ICBC Leasing, Gecas, GA Telesis, Amentum and BBAM, according to information from AeroTransport Data Bank (ATDB).

The worst affected lessors by number of aircraft are Russian lenders VEB Leasing and VTB Leasing. VTB's press office said that Transaero's debts to the bank total Rb40 billion ($641 million) in lease payments and Rb12 billion in loans.VTB is the lessor with the largest exposure by number of aircraft, according to data from ATDB, with 21 aircraft on lease to the carrier.

The company told Airfinance Journal: "We are currently carrying out pre-sale preparations for 21 aircraft and are interested in selling them either to Aeroflot or to other aviation market participants."

To make matters worse, much of VTB's Transaero exposure consists of large, ageing widebodies, which are costly and difficult to remarket. VTB leases eight mid-life 747s to Transaero, as well as six 777-200ERs and four 767-300ERs.

However, industry sources have indicated that lessors with widebody exposure to the carrier will be hard-pressed to remarket their aircraft in the case of insolvency, and will be unlikely to realize prices in line with their book values.

Market reports suggest that a decade-old 777-200 has sunk in value to about $10 million. In contrast, appraisers tell Airfinance Journal that the current market value for a new 777-200LR is about $147 million.

The worst-case scenario for a creditor is repossession, because of the extensive costs involved. Lenders will often choose to take late or diminished payments to help the operator stay afloat, in the hope of receiving a greater amount of the debt. However, even if reduced payments are unlikely, a creditor will sometimes have no other option than to repossess and then remarket its aircraft.

As always, the most highly liquid assets are young, in-production narrowbodies, because of high demand for the aircraft and lower remarketing costs in comparison to their twin-aisle counterparts. So the lessors of Transaero's 737 NGs and A320-family aircraft are in the best position, but the airline has relatively few of these types in service.

AerCap, for example, has taken five narrowbodies out of Russia in the past couple of months. In September, the lessor relocated five 737-700s

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from Transaero to US low-cost carrier Southwest, which operates more than 450 of the Boeing narrowbodies.

When asked whether the relocation was related to non-payment from the Russian airline, a spokesman declined to comment, but noted that AerCap has been reducing its exposure in Russia since the second quarter of 2014, and clarified that "[its] remaining exposure, if any, is immaterial".

Manufacturer orders

A question mark also hangs over Transaero's direct orders with manufacturers.

The airline has placed direct orders with Airbus – for eight A320neos and four A380s. The combined value of these aircraft, at list prices, is $2.6 billion. An Airbus spokesman told *Airfinance Journal* the company was "monitoring the situation", but declined to comment further.

Transaero also ordered four 747-8s from Boeing in December 2013, which *Airfinance Journal* estimates to be worth about $670 million at current market prices.

Asked about the status of this order, a Boeing spokesman replied: "We are aware of the government decision to begin bankruptcy proceedings for Transaero Airlines. Transaero's 747-8 Intercontinental order is on our books. We are working closely together with them to best support their business needs."

Although most creditors are putting a brave face on their exposure to the Transaero situation, the withdrawal of Aeroflot's offer will have come as a major disappointment.

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